

**February 23,  
2012**

**APAO COMMENTS ON REPORT ON AIR CONNECTIVITY  
IN REGIONAL, REMOTE AND INACCESSIBLE AREA IN  
INDIA**

**Q. 1. Should the RDG be continued in its present form or in a modified form or should it be completely replaced with an alternative mechanism such as essential air services fund as suggested in the Committee Report to ensure achievement of objectives of remote area connectivity in the country in future without distortions? Give reasons with evidence.**

**Ans.** It is a fact that Route Dispersal Guidelines (RDG) or quotas have offered only a partial success to the issue of regional connectivity. Even though this has contributed to a limited extent to the expansion of air connectivity to remote and unviable areas, there is a requirement of an innovative mechanism to achieve maximum connectivity to unserved and underserved areas by making the most efficient and economical use of routes mandated. Since these routes are not a viable business model the operators/carriers will not be interested to do their operation/service if it has to apply the normal criteria of commercial viability. With the growing need for air connectivity, it is essential to support and incentivise potential players to enter into the regional aviation markets. However, keeping in view the past record of the regional carriers, it becomes crucial to review their performance and put in place stringent checks and balances relating to their financial performance and safety & security standards. The RDG is an outdated concept and it is time to replace it with more pragmatic and reasonable risk sharing scheme.

APAO suggests that the Route Dispersal Guidelines (RDG) is to be replaced with an alternative mechanism of funding the operations from an Essential Air Service Fund (EASF). In addition, the State Government and Central Government must play a proactive role in enhancing connectivity through facilitating development of low cost Airports, under writing airport operations and reduction of taxes on ATF.

We are of the view that remote area connectivity in the country is best achieved by incentivising the operators/carriers rather than mandating certain connectivity obligations through RDG. In order to attract more and more airport operators/carriers in the remote/inaccessible areas, the Ministry should formulate certain policies to incentivise and also consider extending tax exemptions, till a desired level of viable/profitable operation is achieved.

Any mandated/prescription of compulsory obligations will not produce the desired result as witnessed in similar service sectors. It is also not workable effectively since there is no incentive inbuilt for the operators in this scheme. The effort should be to make the business of regional/remote and inaccessible areas of the country more viable for the participants. Two things need to be done urgently:

1. Incentivize the operator/carriers by the support of special fund (EASF).
2. Incentivize the passengers who are travelling to and from regional, remote and inaccessible areas of the country by exempting them from all taxes on their tickets.

We believe that this will only encourage the airport operator/carrier to participate in remote areas operations and achieve the desired level of air connectivity in regional, remote and inaccessible areas of the country.

**Q. 2. Comments are invited on the scheme of Essential Air Services Fund (EASF) with justification on the following specific issues;**

**Q. i) Should the funds under the scheme be utilized for subsidizing partly or fully the air travel operations to certain areas/ regions/ destinations with a view to provide air connectivity? Give reasons with evidence.**

**Ans.** The air travel operations to underserved and unserved areas may not make a commercially viable business case for the airlines or the airports. Hence it is important that Essential Air Service Fund/Regional Air Connectivity Fund should be set up and utilised to meet the funding/revenue gap for the viable operation of regional/remote and inaccessible areas connectivity. The fund should be utilised for meeting the revenue gap between the revenue earned by the operator and the required yield determined by the Regulator/Government.

Any cross subsidy mechanism should however only be for a limited period and should end once the route acquires sufficient viability as cross subsidisation in the long run does not promote efficiency and is bad for any economy. We agree with the committee's proposal that 1/3<sup>rd</sup> of the EASF must be earmarked for the airport development in such remote/unviable areas. Provision of explicit subsidy support from the EASF can be considered through a transparent process by ensuring that the benefit reaches out to the real target groups.

We also support the suggestion that State Government's must also contribute in this scheme to provide better connectivity to underserved and unserved areas in various states and the fund also be utilised for the development of low cost regional airports to be set up either by AAI, State Governments or by private entrepreneurs. We agree with the suggestion that Regional Air Connectivity Fund (RACF) should be established through a small contribution from passengers. We propose that only Rs. 10 be levied initially from all departing passengers. The fund should be administered by an independent autonomous body.

**Q. ii) If yes, should the subsidy scheme be made applicable to scheduled carriers or all operators including regional/non scheduled operators? Justify your answer with evidence.**

**Ans.** Since the subsidy scheme is primarily intended to enhance remote area connectivity, APAO suggests that the subsidy may be made applicable to all the carriers including scheduled, non scheduled and regional etc. who undertake to provide air connectivity to remote and inaccessible areas. This will promote the much needed connectivity to such underserved and unserved areas.

**Q. iii) Should the funds under the scheme be also utilized for subsidizing partly or fully the setting up of low cost / no frills airports in certain areas/ regions/ destinations and for funding viability gap with a view to provide air connectivity? Give justifications for the reply.**

**Ans.** It is of paramount importance that availability of infrastructure such as an airport is first set up prior to have air connectivity. The setting up of a low cost airport may require at least Rs. 200 - 300 crores capital (excluding land) and because of low traffic the viability of airport cannot be achieved particularly in the remote/inaccessible areas. In order to attract/incentivise the airport developers to set up low cost/no frill airports in such inaccessible areas it is essential that the non-lapsable EASF must be available for funding for setting up of infrastructure and also to meet the revenue gap. Moreover, these airports must be allowed to avail zero tax benefit for at least a 20 year period, in addition to allowing ATF @ 4% and providing water, electricity etc. at free of cost as their requirements any way will be limited.

Airport Authority of India is having large number of airports both in urban and rural areas. Majority of these airports are situated and operating in rural, remote and inaccessible areas and are not a viable business model. These unviable airports put serious financial pressure even on the viability of Airport Authority of India's profit making airports. Availability of EASF for funding the development/operation of remote area airports will help AAI to reduce the burden on developing airports in remote and inaccessible areas as a government policy. Further, the financial support and incentive schemes will attract more and more private entrepreneurs to develop remote and inaccessible area airports. This will also help AAI to make other airports run profitably because cross subsidy within the AAI airports will get minimised. We are sure this will facilitate/support to a large extent to the Ministry's effort for enhancing connectivity to unserved areas of the country.

**Q. iv) What shall be the criteria to select certain areas/ regions/ destinations which may become eligible for deployment of funds from the scheme?**

**Ans.** For identifying the areas/regions/destinations which may become eligible for deployment of funds for the scheme can be based on the remote area classification as published by National Sample Survey Organisation. Many regulatory tariff regimes have followed the criteria adopted by National Sample Survey Organisation for identifying the target population. APAO also suggests that a transparent market determined auction process is the best solution to select the operators for setting up infrastructure in the remote/inaccessible areas and run the air transport business.

**Q. v) Should the fund be created / augmented by levying a cess on domestic passenger service and if so what that amount should be per ticket?**

**Ans.** We suggest that it will be advisable to initially create a corpus by the government funding for Regional Air Connectivity Fund (RACF). Subsequently a small amount of say Rs. 10 per passenger can be levied towards subscription to this fund. Taking into account the Total passenger to travel in Indian Airports during 2012-13 would be approximately 80 million, a

contribution of Rs. 10 per passenger from both Domestic and International passengers will itself amount to Rs. 80 Crores and this fund will continue to grow as the numbers of passengers increase every year.

**Q. 3. What in your view should be the role of the State Government in the matter of enhancing air connectivity in the regional, remote and inaccessible areas?**

**Ans.** It is imperative for State Governments to play an important role for the development of air connectivity in remote/inaccessible areas particularly identifying the places, making available the requisite land and meeting other legal/local requirements. It is also advisable that State Government can also consider becoming a business/equity partner in the remote area air transport business and airport. It is also important that the road connectivity etc. should be the top priority by the state government to provide access and connect such remote area airports. Without the active support and cooperation of state governments the development of Civil Aviation in remote/inaccessible areas is next to impossible.

State Governments should also promote air connectivity in remote and unviable areas by participating in the development of airports and training centres, reduced taxes, subsidy to airlines to attract airlines to fly in these areas. One way of encouraging and supporting the initiative is to underwrite a certain percentage of seats by entering in to agreements with respective airlines. The underwriting will ensure certain specified level of seats on offer at all times as a guarantee given by the state government. State tourism department should support this effort.

The air services from specified rural areas to city and vice versa can be considered on a subsidized basis by which the end consumer will be required to pay only the basic fare. No taxes to be further levied on the ticket. Even on the basic fare some 40 to 50% discount/subsidy can be considered and met from the Essential Air Services Fund (EASF) or this can also be met by the concerned State Government. A similar approach is prevailing in the telecom sector wherein call charges originating for rural subscriber are cheaper than the call charges prescribed for urban subscribers. Zero taxes on all air tickets for passengers to and from specified rural areas must be considered as an incentive. This will promote air travel to rural and remote areas.

Another proposal to improve air connectivity in remote and unviable areas is that the state government must reduce sales tax on ATF. The sales tax on ATF is presently ranging 4% to 25%. There are examples of some State Governments like Madhya Pradesh and Chhattisgarh who have reduced Sales Tax on ATF to 4%. It will be better if all the state governments follow this policy and reduce the ATF charges.

The State Government should also take initiative for construction of more and more low cost/no frills Airports and Helipads in their jurisdiction for improving and achieving better air connectivity in their state. Besides providing fiscal incentives the state government should also take initiative to provide road connectivity to the airport and provide utilities like power and water free of cost. The State Government also should facilitate providing free/concessional land

for airport development in such areas to the airport operator. The State Government must also facilitate all the necessary clearances required from government/non government/other agencies. Private participation in a large scale on all these activities can facilitate meeting the funding requirement of the State Governments.

**Q. 4. In the interest of enhancing air connectivity to remote and in accessible areas, should the non scheduled operators/regional airlines be allowed to do domestic code share with scheduled operators and by publishing their schedules for this limited purpose?**

**Ans.** It is essential for airlines to add new routes and connectivity to multiple destinations due to the growing need for global and domestic connectivity. Though it might not be feasible for one airline to fly on multiple routes, thus Code share is a significant tool for airlines to develop their route network and provide better and quicker connectivity to their passengers with less time & cost. Hence code share amongst the carriers is crucial.

Keeping in view the above, Code-share arrangement/agreements between Indian Carriers (including Private Carriers) and foreign carriers should be liberalised. This will boost the overall international & domestic connectivity and restrict foreign airlines to enter directly into the regional markets. This will help in minimizing leakage of passengers from the catchment areas of Indian Airports.

We believe that publication of schedules of operation by non scheduled air transport operators will enhance their visibility and also the customer would be able to utilise such flights very easily. Further this will also help the NSOP's to get more passengers and to make their business more profitable. This will also reduce evasion of any taxes to the Government. Hence it will be in the interest of all stakeholders including the Government for allowing the non scheduled operators to publish their schedule of operations in all Categories of routes.

**Q. 5. In the context of expanding regional air connectivity and in the background of the experience so far with respect to performance of regional airlines, should MoCA liberalize the licensing conditions such as number of aircrafts, its capacity, choice of destinations etc.**

**Ans.** Policy restrictions are one of the serious bottlenecks for development of air connectivity across the country. It is extremely important that MoCA should liberalise the licensing condition and remove all restrictions in the interest of development regional/rural connectivity. Any individual or entity willing to participate in the air connectivity to rural/inaccessible areas should be permitted to do so subject to the condition that they fulfil the safety and security norms. The issues of air safety and passenger security should remain main areas of focus of the government and frequent safety audits should be conducted on such regional airlines.

**Q. 6. Should the exemptions presently granted for aircrafts with less than eighty seater capacity and the helicopter of all types from the RNFC/Landing Charges be made applicable only in respect of flights to identified regional, remote and inaccessible areas? Give justifications for the reply.**

**Ans.** No exemptions on RNFC/Landing charges must be given. Moreover, ATR operations in congested airports like Mumbai should be discouraged.

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